WHAT THE ECONOMY NEEDS • TOP AIRLINES • THE WAR ON BENEFITS

DECEMBER 16, 1991

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FORTUNE

GAY IN CORPORATE AMERICA

What it's like, and how business attitudes are changing

Like more and more business people, Jack Sansolo, president of the Hill Holliday ad agency, is out of the closet.

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DECEMBER 16, 1991 VOL. 124, NO. 14

FORTUNE

"One way I can make the world a better place is to help people understand that there's nothing to be afraid of from lesbians and gays." PAGE 42

ABOVE: Gay employees speak at a Lotus diversity-awareness workshop. Photo by Max Aguilera-Hellweg.

COVER: Aguilera-Hellweg found Sansolo, president (U.S.) of Hill Holliday Connors Cosmopulos, in his L.A. office.

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"Delta has assured itself of a place at the table, but you have to wonder if the price was too steep for what they got."

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"This is a total fraud on small business. We would have been better off just flushing the money down the toilet."

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EDITOR'S DESK

Stewart and Fefer: some light on an often hidden subject

WHY WOULD FORTUNE ever want to do a cover story about *that*? I suppose a few readers will ask the question. And I admit I was a bit skeptical when reporter Mark D. Fefer proposed that we examine what it's like for gays in corporate America. The answers soon became clear: because they're *there*—sometimes in large numbers. Because they have special concerns on the job. Because business must make the most of everyone's talent and prides itself in managing diversity in the workplace. And because homosexuals surely deserve as much opportunity as any other minority.

Emily Thornton in Tokyo

But would we be able to find enough gays to speak to us openly? Fefer was already a step ahead. He had called a dozen gay and lesbian organizations around the country. Almost all had members in business who professed a willingness to talk. With that, Fefer and writer Thomas A. Stewart set out for several weeks interviewing over 100 gay men and women about their lives in business.

Fefer and Stewart found professionals who were scared about the career consequences of admitting their homosexuality, yet equally frustrated with having to hide it. Says Fefer: "For some, it's a big step just taking *no* steps to deceive coworkers."

While most people they interviewed asked both men if they were gay—they are not—few made an issue of it. Says Stewart: "You have to remember that gay people live in a straight world, so they've developed a pretty good sense of whether you are out to get them. Once they figure out that you are being honest with them and are not interested in gossip, there's no problem."

Also in this issue, reporter Emily Thornton of our Tokyo bureau examines how U.S.-Japanese relations have changed over the past 50 years—and where they may go next. While pondering how we might mark the anniversary of Pearl Harbor, Thornton told international editor Don Holt that she was struck by the differences between the ways older and younger Japanese view the U.S. "With older managers there is a feeling of nostalgia about the greatness of the U.S.," says Thornton. "People in their 20s and 30s have no memories of World War II or American postwar benevolence. They don't want the U.S. to treat Japan like its little brother anymore." To plumb these changing attitudes and their meaning, turn to page 126.

Marshall Loeb

MANAGING EDITOR

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real goal, namely providing health care for all, including the 34 million Americans currently uninsured. **– R.T.**

A TOUGH HUNT FOR OFFICES ABROAD

■ U.S. corporations hoping to profit from economic unity in Europe and freer trade with Mexico must live with higher rents, lower vacancy rates, and fewer deals for space than those offered in overbuilt commercial districts stateside. (See table for the figures on prime districts around the world.)

AT&T, for example, needs to increase the number of employees in Mexico City from 120 to 155 and add about 20,000 square feet to the 43,000 it presently occupies there. The company is weighing the merits of building, leasing, or expanding its present offices. Robert Curtiss, an AT&T international real estate manager, says a lack of long-term financing from Mexican banks, a dearth of space in one of the world's most populous cities, and a shortage of reliable information make building in Mexico City a pain. Says he: "It's the most difficult market I've ever worked in."

Hewlett-Packard also wants to increase its head count in Mexico City from 500 to 700 and needs a home where they could all work under one roof instead of being dispersed as they are now. HP has decided to build in Santa Fe, a suburb. Rather than look for local loans, the computer manufacturer is paying for the construction itself. Bob Brackin, a real estate manager for the company, says HP hopes to recoup some of the cost by leasing out any space left over. Thus the company may benefit from the same high rents that encouraged it to build in the first place.

Europe generally is easier, but Paris has tough laws on tearing down old buildings. No surprise, Tokyo has the fewest vacancies, the highest prices, and lots of red tape. **– A.J.M.**

David Saperstein helps 85 million Americans find their way out of a jam.

SOMEONE UP THERE KNOWS A SHORT CUT

■ It's 6:30 A.M., and Kevin Zeppelin's view from the radio station 96 Rock-and-Roll Jet Patrol helicopter—mostly of Atlanta's tangled "Spaghetti Junction" interchange—is spectacular. Nobody can spit out a summary of the morning's congealing traffic faster than Kevin. Unless it's the more bucolic Moose aboard station KICKS Country 101's chopper.

Actually, they're the same guy—real name, Kevin DePhillips—riding the same Bell Jet Ranger. He and five colleagues with multiple personalities and accents give traffic updates for 17 other local radio stations. Their boss: Metro Traffic Control, a private Houston outfit that has similar casts of characters in 39 other U.S. cities. Riding a total of 23 helicopters and 54 airplanes, 198 of them deliver traffic reports via some 800 radio and TV stations to an estimated 85 million people. The company provides the reports free of charge to stations, but sells the commercials itself. Former Ford dealer David Saperstein, 51, who founded Metro in 1977, says revenues have risen annually by an average 48% since then.

Looking ahead, Saperstein is steering Metro into a variety of technology-driven solutions to growing traffic problems. The company already offers two-way interactive cellular phone service in Chicago, Los Angeles, and New York City to drivers searching for quicker routes. Metro also has a dozen people researching intelligent vehicle systems, where sensors in the roads would communicate traffic information to systems built into cars. And Metro is pursuing contracts with local governments to run so-called incident management systems —"accident at First and Main"—that police departments usually operate.

In November, Metro scored its first big hit in this arena when New York's Westchester County selected the company to operate its traffic communications center. Saperstein believes his systems will ultimately save business billions of dollars in productivity now lost to traffic jams. **– John Huey**

WHERE THE SPACE IS

	Office vacancy rate	Average price per square foot
Los Angeles	24.0%	$14
Chicago	21.1%	$28
Atlanta	18.0%	$20
New York	16.5%	$40
London	15.0%	$105
Paris	4.5%	$85
Brussels	3.0%	$29
Frankfurt	2.0%	$68
Hong Kong	2.0%	$115
Berlin	1.0%	$82
Mexico City	1.0%	$53
Tokyo	0.2%	$158

NOW HEAR THIS

■ **T. J. RODGERS,** 43, founder and CEO of Cypress Semiconductor, on his evolving relationship with company directors: **"I've become comfortable having a board that gets on my case often. When we screw up, we try to fix it."**

■ **LORD HANSON,** 69, founder and chairman of Hanson PLC, a British conglomerate, on accusations that he uses company money to prop up his personal standard of living: **"When I was 27 I was driving my own Rolls-Royce. Today it may be owned by Hanson, but the point is I don't need the company to keep me in the style in which I have lived for years."**

MISERY IN THE AIR

Following a year made dismal by war and recession, the world's largest airlines count their losses. ■ *by Wilton Woods*

LAST YEAR was the worst ever for the world's airline industry, which lost some $2.7 billion. But the record may not stand for long. Officials of the International Air Transport Association predict that 1991 could turn out even worse when the airlines total up the damages from the Gulf war and the U.S. recession, which have already caused the industry plenty of misery.

Nearly half the companies on this list posted losses, and some show a profit here only because their fiscal years ended before Saddam Hussein sent his troops into Kuwait. That invasion sent the price of jet fuel up and the number of passengers down—a scissor effect that cut off airline profits in midflight. Then Desert Storm hit the airlines with hurricane force as prospective passengers worried about terrorism and stayed home.

Even after the Gulf war ended, air carriers continued to suffer. The U.S. recession persuaded many Americans that flying was a luxury they could forgo; traffic declined within the U.S. and from the U.S. to Europe. Casualties included some of the most famous names aloft. Pan Am dived into bankruptcy and sold off pieces of itself—Berlin routes to Lufthansa, London routes to United, and most of the rest to Delta—leaving only a remnant flying out of a Miami hub to Latin America. Continental also filed under Chapter 11, blaming high fuel prices; it may merge with Northwest or reorganize. TWA sold its London routes to American and is preparing a prepackaged bankruptcy to cut its debt.

Like most crises, this one has made the strong stronger. In the U.S., American, United, and Delta have become the undisputed Big Three. France's government-owned flag carrier has added the country's two largest privately owned lines (Air Inter and UTA) to the Air France Group, creating a fortress hub in Paris. Spain's Iberia, also government owned, took advantage of the Latin American privatization wave to buy controlling stakes in Venezuela's Viasa and Aerolineas Argentinas, gaining a dominant position on the Caribbean coast and the southern cone of South America. British Airways and KLM are trying to put together a new combination of their own.

In the cold shadows of the giants, smaller carriers are huddling together. SAS, Swissair, and Austrian Airlines are coordinating flights into each other's hubs and plan to buy shares in one another to cement the alliance. USAir and Air Canada announced a relationship that could grow closer as the North American Free Trade Agreement unfolds. Northwest has scavenged assets of smaller lines, including Hawaiian, Eastern, and America West, while trying to take over the Trump shuttle or even Continental.

Only the Pacific Rim airlines remain profitable as a group. Because nations in that part of the world were little involved in the Gulf war, most passengers kept right on flying. The U.S. recession didn't affect them much. And citizens of the Pac Rim's many island and peninsular nations have few alternatives to air travel for getting from spot to spot. Australia's airlines nonetheless suffered from a bitter strike by pilots that began in 1989, disrupting service and scaring away passengers.

For airlines, as for many businesses, Eastern Europe is an important growth market. CSA Czechoslovakia, Malev Hungarian, and LOT Polish each report revenues of less than $300 million, but they are lining up to buy new planes from the West. Aeroflot reported that its international routes brought in revenues of more than $2 billion last year, most of that presumably hard currency. The domestic market could be even larger. If the ruble becomes convertible, as it may in a year or two, Aeroflot would then be eligible for this list—and could land near the top. F

Rank by revenues 1990	89	Country
1	1	AMR	U.S.
2	2	UAL	U.S.
3	10	Air France Group	France
4	6	Lufthansa	Germany
5	3	Japan	Japan
6	4	Delta	U.S.
7	5	British Airways	Britain
8	8	Northwest	U.S.
9	9	USAir Group	U.S.
10	7	Continental Holdings	U.S.
11	12	Scandinavian Airlines System	‡
12	11	All Nippon Airways	Japan
13	13	Trans World	U.S.
14	16	Alitalia	Italy
15	14	Hanjin Group	South Korea
16	24	Swire Pacific	Hong Kong
17	15	Pan Am	U.S.
18	17	Swissair	Switzerland
19	19	Iberia	Spain
20	18	Air Canada	Canada
21	20	KLM Royal Dutch	Netherlands
22	21	Qantas	Australia
23	22	Singapore	Singapore
24	23	PWA	Canada
25	25	Saudia	Saudi Arabia
26	26	Varig	Brazil
27	28	Thai Airways	Thailand
28	29	Japan Air System	Japan
29	31	China	China
30	32	Garuda	Indonesia
31	35	Sabena	Belgium
32	27	Ansett Transport	Australia
33	37	LTU	Germany
34	41	America West	U.S.
35	34	Finnair	Finland
36	39	Southwest	U.S.
37	36	Air New Zealand	New Zealand
38	42	Alaska Air Group	U.S.
39	47	Mexicana	Mexico
40	44	Aer Lingus	Ireland
41	45	Austrian	Austria
42	43	South African Airways	South Africa
43	46	Olympic Airways	Greece
44		TAP Air Portugal	Portugal
45	50	Malaysian	Malaysia
46	48	Air India	India
47	●	Aerolineas	Argentina
48	49	El Al	Israel
49	40	Australian	Australia
50	●	Pakistan International	Pakistan

● Newcomer ‡Half owned by the governments of Sweden, Denmark, and Norway

THE TOP 50 AIRLINE COMPANIES

1990 REVENUES		PROFITS		TRAFFIC		COMMENTS
$ millions	% change from 1989	$ millions	Rank	Passenger miles in billions	Rank	
$11,803.6	11.5%	(39.6)	34	77.1	1	American's parent; bought TWA's London routes to keep ahead of archrival United.
$11,160.1	12.6%	94.5	10	76.1	2	United's parent; bought Pan Am's rights to cross the Atlantic to London.
$10,944.7	76.0%	(131.7)	38	36.3	6	Acquired privately owned Air Inter and UTA to make Paris into a fortress hub.
$9,007.0	29.8%	6.9	27	25.8	12	Proudly resumed service from old home base in Berlin after German reunification.
$8,950.0	5.2%	122.9	7	32.5	10	Like competitors, restrained by Japan's crowded airports from adding destinations.
$8,582.2	6.1%	302.8	4	62.1	3	Bought a flock of Pan Am's planes, foreign landing rights, and New York shuttle.
$7,823.0	3.9%	397.8	2	38.5	5	Facing tough new competitors at London's Heathrow Airport, its home base.
$7,257.1	10.7%	(10.4)	28	51.5	4	Trying to grow big enough to survive by buying up bits of smaller, troubled rivals.
$6,562.8	4.9%	(454.4)	45	35.6	8	Hurting because it is strongest in parts of the U.S. where the economy is weakest.
$6,283.6	(7.2%)	(2,343.9)	47	39.2	7	Changed name from Texas Air after its sister airline Eastern went into bankruptcy.
$5,383.4	17.9%	N.A.	—	10.2	26	To compete in the mainstream, looking for allies with hubs in the heart of Europe.
$5,291.8	8.9%	105.7	9	3.6	46	Japan's largest domestic airline; has bold plans to challenge the megacarriers.
$4,646.3	3.1%	(237.6)	44	34.7	9	Shrunken line owned by Carl Icahn, who could save it or sell what's left.
$4,645.8	24.4%	(81.6)	37	14.1	18	Government owned in a protected market; faces EC deregulation after 1992.
$4,537.6	6.9%	(12.0)	30	12.0	22	Parent of Korean Air, conglomerate owned by founder Choong Hoon Cho.
$4,001.9	12.8%	314.5	3	15.2	17	Owns Cathay Pacific, real estate in Hong Kong, Coke bottlers in China, and more.
$3,931.9	2.0%	(662.9)	46	30.7	11	Trying to start over where it all began, with flights from Florida to Latin America.
$3,760.4	18.5%	(15.8)	32	9.9	28	Partners with SAS in Europe, Delta in the U.S., and Singapore in Asia.
$3,684.1	22.2%	(136.8)	39	13.7	20	Hoping to be Europe's bridge to Latin America; bought Aerolineas Argentinas.
$3,378.7	8.8%	(63.5)	35	16.6	16	Wary of talks to add air travel to the Free Trade Agreement; allied with USAir.
$3,114.5	6.0%	163.7	5	16.8	14	Squeezed by big neighbors, needs a big ally; has a stake in Northwest.
$2,772.2	4.0%	9.3	26	16.8	15	For sale by owner (government of Australia); foreign bidders expressly invited.
$2,624.2	14.3%	618.6	1	19.1	13	Consistently the world's most profitable airline; keeps spending on new planes.
$2,355.1	4.5%	12.5	24	13.9	19	Owns Canadian International; U.S. carriers would be tough rivals if allowed in.
$2,050.7	7.4%	(163.7)	41	10.4	25	Hit hard by war, as were Kuwait Airways, Egyptair, and Royal Jordanian.
$1,926.9	3.5%	(145.1)	40	10.4	24	Employee owned; faces privatized competitors in Brazil and South America.
$1,926.2	14.4%	162.6	6	12.2	21	Plans to sell shares on Bangkok exchange; boasts 27 consecutive years of profits.
$1,704.4	20.2%	13.8	22	5.9	37	No. 3 in Japan—not such a bad place to be in a sheltered and yen-rich market.
$1,521.2	22.0%	119.9	8	7.6	31	Riding Taiwan's galloping economy and adding capacity to meet new competition.
$1,515.0*	21.6%*	75.0*	12	9.2	29	Outgrowing its booming home country, may bid for stakes in Qantas or Australian.
$1,467.7	28.0%	(207.8)	43	4.2	43	Too small to go it alone; Brussels could be second hub for BA, KLM, or Air France.
$1,435.9	(17.7%)	21.1	18	2.7	47	Half owned by Rupert Murdoch's News Corp.; trouble hit when pilots struck.
$1,406.6	28.5%	N.A.	—	8.3	30	Privately owned operator of package tours, mostly to Spain; some scheduled service.
$1,326.3	32.1%	(74.7)	36	11.1	23	Fast-growing success story until hit by war, recession, and high fuel prices.
$1,265.3	9.0%	18.5	19	6.2	36	Home market in recession; adding flights to its newly independent Baltic neighbors.
$1,194.4	15.8%	47.1	14	10.0	27	Niche player with a no-frills style; lots of short nonstops, little hubbing.
$1,113.5	0.4%	59.2	13	6.3	35	Privatized in the restructuring of a welfare state economy now mired in recession.
$1,054.3	13.5%	17.2	20	7.3	32	An anomaly emphasizing more seat space and better meals in West Coast market.
$1,043.1	36.5%	(35.5)	33	7.1	33	Newly private; bought planes and improved service to grow with the economy.
$1,035.7	15.1%	45.8	15	2.5	49	Feisty competitor; gets most of its profits from diverse associated businesses.
$1,116.5	31.3%	11.6	25	1.8	50	Route system is already aimed at the growing markets of Eastern Europe.
$1,010.9	10.8%	23.7	17	5.7	40	With apartheid and boycotts crumbling, resumed service to New York.
$940.0*	19.7%	(175.0)*	42	4.8	42	Being restructured by its government owner, which is seeking a buyer.
$935.2	23.9%	(15.4)	31	4.2	45	Lots of routes from Africa and Brazil to the fastest-growing economy in the EC.
$853.9	19.8%	83.1	11	6.5	34	Good service, new planes, a government owner that keeps competition restrained.
$822.0	10.3%	42.6	16	5.8	39	May be the world's most improved line, say passengers, despite government owner.
$787.0	N.A.	N.A.	—	5.3	41	Controlled by Iberia, which faces a big job upgrading fleet and service.
$785.3	10.0%	14.1	121	4.6	44	Continued flying to Israel during the Gulf war when U.S. and European lines didn't.
$784.7	(22.6%)	(10.6)	29	2.7	48	Endured pilots' strike and then deregulation; now on the block for privatization.
$767.2	5.2%	13.7	23	5.8	38	For sale, like much else owned by the government of Pakistan.

*Estimate N.A. Not available
All figures converted to dollars using the average official exchange rate during each company's fiscal year
Figures are for fiscal year ended March 31, 1990. Fiscal year ended June 30, 1990. Fiscal year ended September 30, 1990.

COURTESY AMR

THE BATTLE OVER BENEFITS

Squeezed in a tight economy, companies are looking for savings where once they didn't dare: in health insurance and pension costs. Employees get panicky at the thought. ■ *by Jeremy Main*

THE BATTLE over benefits has grabbed a starring role in the corporate drama of the 1990s. Companies gasping for profits in a sluggish economy are no longer willing to bear giant, fast-growing expenses. Employees fearful of cutbacks or layoffs are clutching at every benefit that looks vulnerable. The result is growing tension between workers and employers on an issue that is already hot. Consider: More than half the workers who struck in the U.S. last year walked out primarily over their medical coverage. Employers typically wanted to shift some costs of health insurance to employees, and the unions naturally resisted.

There's no going back to the old days, when employers considered benefit expenses sacrosanct or intractable. Companies have fundamentally changed their attitude. "During the last four to five years we've started to look at benefits as a business expense rather than something sacred, off to one side," says Patricia Nazemetz, director of benefits at Xerox. "We see large corporations, including Xerox, working toward managing their benefit spending just like they manage other business areas, such as pay, while still preserving their benefits. What they are trying to do is keep benefit spending at the consumer price index level."

Good luck. The CPI has about matched wages and salaries over the past decade, while benefit costs have far outpaced them (see chart). Some benefits, those required by law like Social Security, can't be touched. Others, such as vacations and life insurance, have remained mainly out of bounds despite their considerable expense because at least the costs are fairly stable. A number of benefits are even expanding. Under social and political pressure, companies are allowing leaves to care for relatives and reimbursing child and elder care expenses. Both houses of Congress have approved a bill creating the right to 12 weeks of unpaid family leave. So cost cutting must focus on the two remaining big categories, health insurance and pensions. Of these, health is the largest and most fearsomely growing.

REPORTER ASSOCIATE *Rosalind Klein Berlin*

To save money, Quad/Graphics near Milwaukee offers free therapy and other services at its own clinic.

That's partly because it is scarcely managed. Traditional health insurance, the indemnity or fee-for-service plan that lets the doctor or hospital virtually fill in a blank check, costs the average large company $3,200 a year per employee and went up 21% last year; for smaller companies 25%. Four parties come together in this expensive transaction: the employee who receives care, the employer who pays for it, the insurance company that administers it, and the doctors and hospitals that deliver it. None is responsible for managing the whole system.

Lack of management produces atrocious discrepancies in costs and quality. Carson Beadle, managing director of William M. Mercer, a benefits consulting firm, reports these striking results of a 1990 survey of eight hospitals in the West that performed a specific type of surgery, a coronary artery bypass graft: The cheapest hospital charged an average of $17,000 and had a death rate of 8.3%; the most expensive charged $53,000 on average but had a 2% mortality rate.

These discrepancies, widespread in medi-

cine, shout out for good management to find the best care at the best prices. The most promising approach companies have found is managed care—negotiated fees and reviews of the performance of doctors and hospitals. Managed care can work through health maintenance organizations (HMOs) or networks of preferred health care providers assembled by insurance companies or by corporations themselves. The common element is that the company is no longer passive in the health care of its employees. It monitors results and costs, negotiates better discounts and services, even watches over specific cases.

Allied-Signal, with one of the best-known managed-care programs, has held average annual increases in health costs below 10% since 1989. PepsiCo, also using managed care, says it has kept annual growth of medical costs below 8% for the past five years.

As PepsiCo got deeper into managed care, it made a discovery similar to what others are finding—that 45% of its medical costs stemmed from 2% of cases. Premature babies, heart attacks, cancer, and mental problems, for example, are extremely expensive. So now when a major problem is diagnosed, PepsiCo appoints a case manager from companies that specialize in providing the service to monitor and try to control the case. All pregnant women can volunteer to be screened in the first trimester, and those likely to have a high-risk pregnancy get special attention.

OTHER BIG COMPANIES are also setting up networks of health care providers with which they have negotiated advantageous rates. Corporations can't force employees to use the networks, but they usually try to make it worth their while. For example, network users at AT&T pay a $150 deductible, and insurance covers 100% of hospital bills and 95% of surgical fees. The worker who goes outside a network pays a $200 deductible and gets only 80% of bills reimbursed.

To curb particularly fast-rising costs such as those for treatment for drug abuse and mental problems, many companies carve them out of their regular insurance plans and put them in the hands of specialist companies like Value Health of Avon, Connecticut. Mental health insurance costs are rising as much as 50% a year, says Robert Patricelli, president of Value Health. One reason: Drug abusers are more likely to seek help now because many employers insist on drug tests, and treatment falls under mental health insurance.

Brown & Root, the big Houston-based construction company, carved mental health out of its medical plan last year and turned it over to Cambridge International, which operates mental clinics and hospitals in the Houston area. The agreement is exclusive: Brown & Root employees must go to a Cambridge clinic or they get no coverage at all. Yet the deductibles and co-payments they make are less than under the company's old plan.

John Schaeffer, who runs Brown & Root's employee assistance program, says the company would have spent $11.3 million last year on mental health insurance. Instead it paid $6.5 million. The average hospital stay dropped from 34 days in 1989 to 22 in 1990. Brown & Root plans to subcontract more pieces of its health insurance.

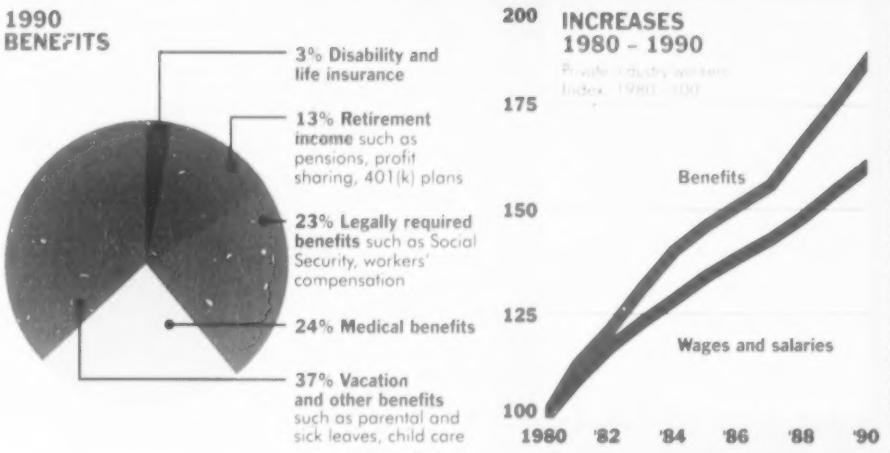
Other companies have devised different imaginative approaches to rising health costs. Baker Hughes, an oilfield service company in Houston, discovered that about half its employees' health problems were caused by bad habits and last year adopted a "wellness" program. Tobacco smokers and chewers pay a $10-a-month surcharge for health insurance, while employees who pass a physical get an extra $100 toward medical bills. After several years of 20% increases, the company has negotiated a 1992 health insurance contract with Provident Life & Accident Insurance that includes no increase at all.

Quad/Graphics, a printing company outside Milwaukee, decided to bypass the middlemen of medicine and built its own clinic at headquarters, staffed by nine doctors. The clinic offers a family practice, internal medicine, pediatrics, obstetrics, gynecology, minor surgery, lab work, rehabilitation from injuries, and physical examinations. It's free to employees and their families, who may choose instead one of the networks run by Quad/Graphics or the old-style indemnity coverage, both of which will cost them money.

Health benefits for retirees pose a nasty dilemma for corporations. Who wants to

Who wants to cut off help to the elderly? But the medical bills of retirees are getting too costly to ignore.

Where benefit dollars go . . . and how they outpace pay



Growing far faster than pay, benefits equaled 38% of wages and salaries in 1990. While vacations and other forms of paid time off take the biggest bite of the benefits pie, medical costs are increasing much more quickly.

cut off help to the elderly? But the bills of retirees are getting too costly to ignore. A new rule by the Financial Accounting Standards Board, the high priesthood of bookkeepers, will have a devastating impact on profit statements starting in 1993. Instead of continuing to pay as they go, employers will have to account for future health insurance liabilities in the present.

While not affecting cash flow, the new procedure will wipe out the stated profits of many companies. Hewitt Associates, a benefits consulting company, estimates the switch will raise the stated cost of retiree medical benefits from 1.1% of total payroll to 6.25%. In a recent filing with the Securities and Exchange Commission, General Motors estimated it would have to charge off $16 billion to $24 billion against net income, either in a lump sum in 1993 or spread out over 20 years. New liabilities for retiree health care will accrue at a rate of $400 million to $2.6 billion annually. To put that in perspective, consider that in its best year ever GM earned $4.9 billion.

Employees don't necessarily suffer under managed care: it cuts waste and imposes discipline on an otherwise out-of-control process. But retiree health costs are so frightening that some companies are forthrightly cutting coverage. Ralston Purina and Boise Cascade are phasing out health insurance subsidies for future retirees and will eventually eliminate them. Instead the companies have created special employee stock ownership plans, which workers can use to pay medical costs later in life.

Many companies are also telling *current* employees that there's a limit to the contributions the companies will make once they retire. Chrysler, which will have to write off $4 billion to $6 billion in accrued obligations under the new FASB rule, will adjust its coverage to the age and service of the retiree. Only 30-year veterans who are at least 60 will get full retirement health benefits. A 60-year-old with ten years' service will get half benefits. Explains Allen Steinberg of Hewitt Associates: "Employers are asking why they should give a blank check for medical care to someone who worked for them for only ten years."

Another way out of the medical costs quagmire is cafeteria plans. They're not a new idea—PepsiCo's pioneering plan is 11 years old—but pressure to contain costs is causing more companies to adopt them. AT&T did last July, and Xerox's plan comes alive in January. A survey of 1,000 large companies last year by Foster Higgins, a benefits consulting company, reported that 27% had such flexible plans and another 11% intended to introduce them this year.

Complains a union aide: "Cafeteria plans limit corporate liability but leave the employee holding the bag."

How do they work? AT&T managers get a $260 monthly allowance that covers the most complete medical and dental plans. They may not opt out of medical insurance but may choose a cheaper plan—one with a $2,500-a-year deductible, for example. That choice earns credits that can, for instance, buy up to five days' more vacation. The menu also offers choices in life insurance, long-term nursing-home care, and home care.

Michael Gulotta, president of Actuarial Sciences Associates, an AT&T subsidiary, explains how cafeteria plans contain costs: "With a flexible plan there is no automatic escalation of costs. The corporation has control of the value of credits. If costs go up 20%, maybe the corporation will increase the value of credits only 10%." Because they may represent a true loss of value, flexible plans must be handled with care. Says PepsiCo benefits vice president David Scherb: "We're going to have our employees for a long time, and we don't want to destroy their sense of fairness."

Labor doesn't like cafeteria plans, seeing them as an effort to limit benefits. "They really boil down to cost shifting from employers to individuals," says Karen Ignagni, director of benefits for the AFL-CIO. "They limit corporate liability but leave the employee holding the bag." Cafeteria plans are generally confined to management because unions won't go along with them.

ALL COMPANIES bear the burdens of health insurance, but the other huge source of discretionary benefit costs—pensions—is the special affliction of the small employer. The trouble is not the cost of contributing to a pension plan; the pension funds of many companies did so well in the markets of the 1980s that they are overfunded and don't need more money. The problem is the cost of administering the plans.

Congress meddles forever with the pension laws. Amendments last year brought forth a 600-page wad of almost incomprehensible new rules from the Internal Reve-

Flummoxed by new regulations, the Wolfs wish they had never tried to give their employees a pension.

Baker Hughes employees in Houston earn a premium for good health if they pass a physical like this.

nue Service. Spread over thousands of employees, the costs of keeping up with the rules is manageable. But a little company with only 15 employees could spend fully one-third of what it sets aside for pensions just complying with regulations, particularly rules intended to prevent discrimination against lower-paid workers.

Donald and Anita Wolf, who have run a computer retail and consulting company in Los Gatos, California, for the past ten years, don't know what they are going to do about their pension plan for themselves and their 65 employees. The plan administrator recently notified them that the plan is "top heavy," meaning it discriminates against lower-paid employees by the inscrutable standards of Washington.

The Wolfs have no idea what the regulations mean or what to do about them. They don't think many pension plan administrators, who may charge small companies $5,000 a year to run their plans, understand either. But apparently they will have to pay some undetermined sums to employees who should have received more. "This is a total fraud on small business," says Donald Wolf. "We would have been better off just flushing the money down the toilet. The worst thing is that we have created a real morale problem among our employees." They're uncertain about what pension plan they'll have—if any.

Most troublesome of the pension schemes are defined-benefit plans, the traditional pensions that promise a fixed income on retirement. Because of the cost of running these plans, "we are seeing mass terminations," says Charles Offutt, a Baltimore consultant to small and medium-size companies. Ever more companies—including the Wolfs'—are turning instead to defined-contribution plans, which promise no fixed income at the end. Instead, through a device such as a profit-sharing account or a 401(k) plan, they build up tax-deferred assets that the employee collects when he leaves. He can roll the money over into a tax-deferred individual retirement account, buy an annuity—or blow the money on a boat.

The defined-contribution plans are cheaper and simpler to operate than the defined-benefit version, and shift some responsibility to the employee. With a 401(k) plan, the employee decides how much to contribute to his pension. The company then matches his contribution, often 50 cents on the dollar. The employer no longer carries the whole burden for building a pension or for delivering a fixed amount at the end.

Many big corporations offer employees both types of pension. Which version helps the employee most depends largely on his age. The defined-benefit plan doesn't pay until the worker reaches his company's retirement age, and if he leaves the company young he will probably be better off with a defined-contribution plan, which he can take with him. But if he stays until 65, the defined-benefit plan will probably pay more.

SINCE IT TAKES a long time to build a good pension with a defined-benefit plan, and long-term employment with one company is becoming rarer, employers have come up with a new model of the traditional plan, which they call a "cash balance" plan. Not only does it build to that eventual pension, but it also creates a cash value the employee can see growing every year. If he leaves before retirement age, he can take the cash value with him and spend it or roll it over into an IRA. Chase Manhattan Bank and IBM have added cash-balance pensions.

Defined-contribution and cash-balance pensions—like managed care and cafeteria medical plans—are part of the basic trend in benefits: to involve employees. When workers have to make choices about what they get, with their own money on the line, they become more aware of the value of these parts of their compensation. They will also better understand squeezes in the future, or so corporate thinking goes.

Except for the genuine hardship among small-company employees, who have lost pensions and medical coverage, the battle over benefits has not yet resulted in deep cuts. The packages offered by most big employers are still generous. It's even quite possible that efforts to contain medical costs will improve health care while making it more affordable. If a well-managed health plan reduces unnecessary surgery, then the company saves money and the employee avoids needless risk and suffering. But unless a lot more such win-win solutions are out there waiting to be found, rocketing benefit costs could become the employee-employer issue of the decade.

Because of the cost of running defined-benefit pension plans, "we are seeing mass terminations."

50 FATEFUL YEARS
FROM ENEMY TO FRIEND TO _____?

The men running Japan have vivid memories of war, and American generosity thereafter. But a new generation is declaring its independence from the past—and the U.S. ■ *by Emily Thornton*

When the attack came, Norishige Hasegawa of Sumitomo thought it was the end of Japan.

THE JAPANESE attack on Pearl Harbor was supposed to end a relationship, not start one. But start one it did, a remarkable 50-year journey in which mortal enemies turned into warm friends, then into fierce, sometimes angry, economic competitors. What comes now? No one can say for sure, but the U.S.-Japan alliance will surely be transformed in the next few years as the generations change.

Japan will continue to be run for a while by men who remember not only Pearl Harbor but also the disastrous war that followed. They are still deeply embarrassed by the humiliation of defeat. They refer to themselves as *senzenha*, or the prewar generation, and often discuss contemporary events in terms of the war.

Most important, they remember the magnanimity of the victorious Americans. Many have happy memories of student days in a U.S. that seemed a wonderland of a country, of leaving their cars unlocked all day on a college campus, of staring up at New York's skyscrapers until their necks hurt. They remain grateful to the U.S. and still admire Americans while beating their socks off in world markets.

But gradually the generation born since 1945, now two-thirds of the population, will take over. These men—and some women—see the U.S. more as a whining competitor than any kind of benefactor. They wonder why Japan, a country that lends

REPORTER ASSOCIATE *Thomas J. Murin*

PHOTOGRAPHS BY PETER SIBBALD

money to cover America's deficits, is still playing the role of the grateful son. They are more dedicated to themselves than to either their country or their company.

By listening closely to both groups, you can get some idea of how Japan, and its relationship to the U.S., will evolve. The elders go first:

WHEN NORISHIGE Hasegawa, 84, joined Sumitomo in 1936, one of his first assignments was to visit Europe and the U.S. to learn the secrets of the West. He saw fascism in Germany and Italy, and then the overwhelming freedom of France, Britain, and America. He came home an advocate for liberalism in a totalitarian country preparing to wage war. He will never forget the moment he heard that Japan had bombed Pearl Harbor: "I was at home. I thought, 'Finally the navy has gone and done it. It is the end of Japan. I have lost everything. The future of Japan is gone.' "

After the war, Hasegawa, who became chairman of Sumitomo Chemical and is now retired, vowed to devote the rest of his life to improving ties with the U.S. He belongs to eight associations dedicated to that task and makes a point of going to America four times a year. He spends more than half his time trying to strengthen the relationship, mostly nowadays by explaining Japan to Americans. But he also faults his countrymen, especially the younger ones, for the growing friction between the two countries.

Unlike Hasegawa, Hachiro Hosokawa, 70, a director of Select Food, a food processor and distributor in Tokyo, knew little about the U.S. when he was drafted into the Imperial Navy at age 22. Says he: "The only things we learned from our elders were that Americans are lazy. They play around. And that makes them a weak country. Since there was no TV, whatever our fathers and grandfathers told us we believed."

Hosokawa was also told—by government propagandists—that if he did not make whatever sacrifice was necessary, Japan and its people would be destroyed. In 1944 he left the agricultural college he attended near Nagoya to become a pilot in a kamikaze squad. Since his job was to escort suicide pilots to their targets, he survived. But he was the only one who did of the original 21 officers. Every March 21—the date of the unit's first mission—he prays for the souls of his fallen comrades.

Software producer Nishi: "If I had been alive 50 years ago, I would have voted against that action."

Looking back, Hosokawa sees how futile the effort was. Says he: "The Japanese strategy for Pearl Harbor and the war was that of a kendo match. In kendo, once you tap your opponent's mask, you win. War is not like that. It's more like boxing. You win only when your opponent is knocked out." Then he adds, "No matter whether you look at Pearl Harbor from feudal samurai military ethics or the history of world wars, it was a sneak attack and an unjust way to start a war."

Though he came to admire the U.S. after 1945, he grew disillusioned during the Vietnam war. On a trip to Washington in 1965, Hosokawa went to Arlington Cemetery to see President John F. Kennedy's grave. While he was there, an honor guard trooped by with the flag-draped coffin of a

1941 1991 A CHANGING RELATIONSHIP

July 1941
Washington freezes all Japanese assets in the U.S.

August 1941
The U.S. puts an embargo on oil exports to Japan

December 1941
Japan attacks Pearl Harbor

August 1945
Japan surrenders after U.S. drops nuclear bombs on Hiroshima and Nagasaki

August 1945
American occupation under General MacArthur begins

May 1947
Japan's new constitution, heavily influenced by the U.S., takes effect.

July 1948
Japan accepts $2 billion in U.S. aid

April 1949
One dollar is fixed at 360 yen

July 1949
Unicef ships milk to Japan

April 1952
U.S. occupation of Japan ends

July 1952
Japan joins the International Monetary Fund

March 1954
Nomura Securities reopens its New York office, closed since 1937

UPI, BETTMAN, STANLEY TRUITMAN, ACME, USAAF

Jiro Ushio: "We made excellent American-style companies, and we performed better than they did."

Vietnam casualty. "The scene was the very picture of the Navy funeral services that were an everyday part of life in Japan during the last years of the fighting," he remembers. "The only difference was the flag. I was shocked when I thought about how the country that had beaten Japan was waging its own war, just as Japan had done."

DISILLUSIONMENT, though of a different kind, has also touched Masaharu Matsushita, 79, chairman of Matsushita Electric and son of the founder. Says he: "The one thing I can't understand today is why American manufacturing has become so weak." He was one of many Japanese industrialists who rushed to the U.S. after the war to see the wonders of the country that had defeated Japan. He remembers being spellbound in 1952 when he toured a Chevrolet plant in New York State. "They even assembled different types of engines on the same conveyor belt," he says. "I was so surprised." Earlier, back in Japan, Matsushita had attended a management training course sponsored by the Occupation. "When they asked me to write down my company's objective," he says, "I thought, 'This must be why Americans won the war.'"

For Reinosuke Hara, 66, president of Seiko Instruments, American aid after the war came in the form of scholarships from various U.S. universities. He was studying chemistry at Tokyo University when the war broke out, and was drafted to help develop rocket fuel. Nothing came of the project, and when the war ended he began sending applications to American schools. From 1952 to 1956 he went first to the University of Washington, then to Harvard, and finally to Louisiana State, working toward a doctorate in inorganic chemistry. Says he: "The Americans gave a lot of financial support to Japanese students, and this we should never forget."

JIRO USHIO, 60, founder and chairman of Ushio Inc., a fast-growing maker of halogen lamps for industrial and commercial use, agrees. He attributes all of his success to what he learned in America. Says he: "My generation tends to think a lot like Americans. We made excellent American-style companies, and we performed better than they did." He went to Berkeley in the mid-Fifties, a time he calls the "golden age" of the U.S. "Everyone was kind to foreigners," he says. "America was wonderful."

Nobuhiko Kawamoto, 55, president of Honda Motor, was in fourth grade when he saw his first American—a soldier with the Occupation forces. He didn't make it to the U.S. until the 1970s, when Honda introduced the Civic. Says he: "Until I first went there, I wondered why American people were so well liked by all nations. Why do the American people have the ability to be so popular? I had been taught that it was because of their generosity. When I went to the States, I decided a frontier spirit and generosity are Americans' particular features, the real reasons the U.S. has been No. 1 in the world." Lately, though, Kawamoto says he has had trouble finding the same kind of spirit or values in America. "Everything

1941 1991

August 1955
In the first incidence of U.S.-Japan trade friction, American textile makers complain about cheap Japanese blouses

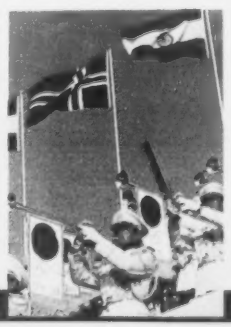
December 1956
Japan is admitted to the United Nations

September 1957
Japan exports first car to the U.S.: Toyota's Toyopet Crown arrives in Los Angeles—and bombs

January 1960
IBM makes its first computer in Japan

June 1960
President Eisenhower's visit to Japan is canceled after thousands demonstrate against a revised U.S.-Japan security treaty

October 1964
The Olympic Games come to Tokyo



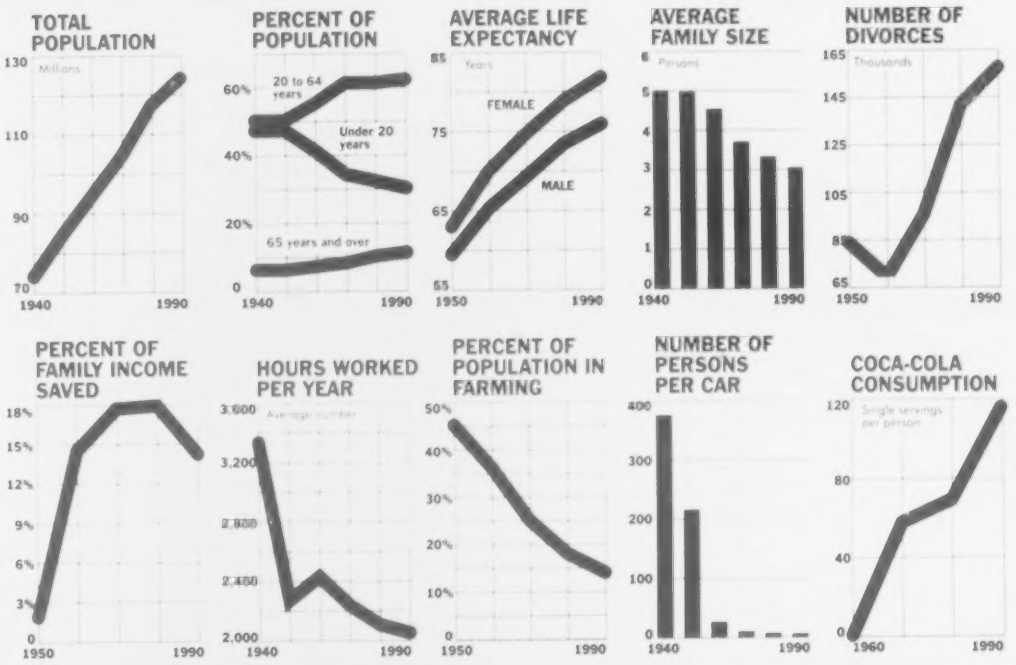
December 1964
Japan runs a trade surplus with the U.S. of $400 million, its first

January 1968
U.S. TV makers charge that Japanese companies are selling color sets below cost

BILL EPPRIDGE - TIME - AP - T. TSUKUMA - SPORTS ILLUSTRATED - JOHN LAUNOIS - BLACK STAR

HOW JAPAN IS CHANGING

Since 1940, family size has dropped and life expectancy has soared. Almost everyone has a car now. The divorce rate has climbed steadily since 1960.



has become so complicated," he says.

Such pessimism comes easily to the younger generation. When Makoto Ueda, 23, joined Toshiba last spring after graduating from Keio University, he had already seen much of the world—and been disenchanted. For the first seven years of his life he lived in Germany, where his father was an executive at a subsidiary of a Japanese chemical company. Ueda's image of America was of a proud country advanced in almost every field. Then his father was transferred to New York City. "I realized that the U.S. is not all-powerful," he says. "The country has domestic problems like its high crime rate. There is a great discrepancy between the rich and poor. Usually when Japanese think of America, they think of the rich people there. But actually, when you consider the whole population, a large proportion are not well-off Caucasians."

A 35-year-old who asks not to be named has a similar view. The Japanese financial institution he works for offered him a job in New York, but he turned it down. Says he: "When I was first exposed to the U.S. I was impressed. But over the last few years that's changed. I'm not interested in living in New York. It's the city where the most affluent people in the world coexist with the Third World, and both groups ignore each other. The rich get richer. The poor get poorer. It's sick."

Ueda and his peers know that the U.S. was generous to Japan after the war. But they know it as history, with little relevance to today. Says Ueda: "Japan and the U.S. are both powerful countries. The older generation had many lessons to learn from Western countries in order to strengthen Japan's economy, so they natu-

1941
1991

January 1969
Japan agrees to reduce steel exports to the U.S.

June 1973
The U.S. restricts soybean exports to Japan

October 1973
Arab oil embargo

December 1973
U.S. firms first listed on the Tokyo Stock Exchange

June 1974
Matsushita Electric begins making color TVs in America

November 1974
Gerald Ford becomes first incumbent U.S. President to visit Japan

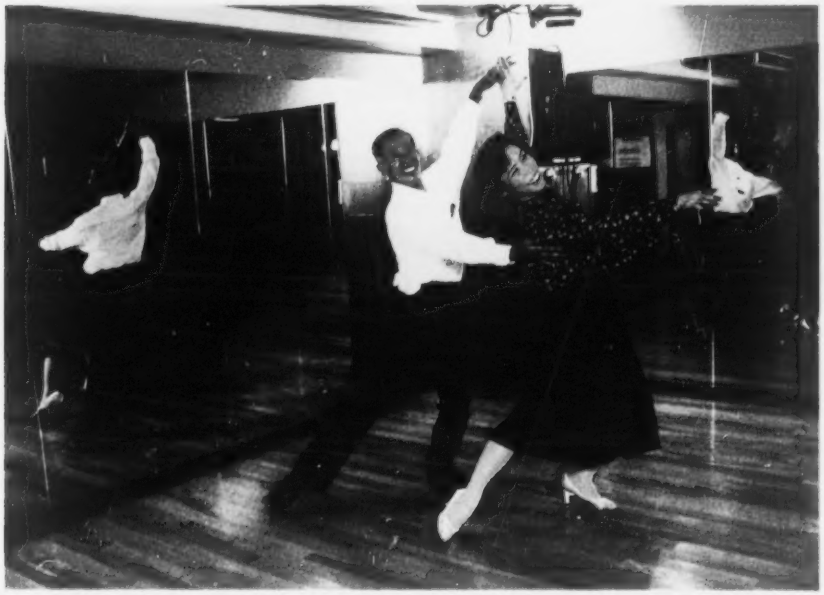
July 1977
First Matsushita VCR arrives in the U.S.

September 1977
Two American steel companies file suit against Japan for dumping steel

July 1979
First Sony Walkman sold in the U.S.

May 1981
Japan accepts voluntary restraints on auto exports to the U.S.

NO CREDIT, SANKEI SHIMBUN - TIME, DIRCK HALSTEAD - TIME, PETER BITTNER, SONY



Seiko Instruments President Hara brought back ballroom dancing from Louisiana State University.

rally preferred to listen to what the U.S. said rather than to express their own opinions. In order for the U.S.-Japan partnership to work under changed circumstances, though, we must say more what we think." Echoing the recent best-seller by Sony Chairman Akio Morita and Shintaro Ishihara—both members of the older generation—Ueda adds, "If the U.S. sincerely wants to be a partner, it must understand this: My generation will not be afraid to say no."

The cosmopolitan outlook of Ueda and his contemporaries is hardly unique. The number of Japanese long-term residents in the U.S. has jumped from 194,000 in 1980 to 374,000 in 1990. Almost 37,000 Japanese students were enrolled in U.S. colleges and universities during the 1990–91 academic year, up 22.7% from the previous school year. In addition, all Japanese are traveling more overseas.

When it came to the Gulf war, international familiarity apparently bred contempt. A poll conducted last March by NHK, Japan's public television network, showed that almost half the 20- to 39-year-olds were opposed to Japan's $13 billion contribution to the war, compared with about 25% for those over 60.

Younger Japanese don't want to work as slavishly as their elders did. For the oldest cohort of the postwar generation, this desire comes out as frustration. Koichi Hori, 46, head of the Boston Consulting Group in Japan, thinks a lot of his colleagues have no firm idea of what they hope to accomplish. Says he: "The men of the older generation have a firm belief; they have a unique philosophy. What philosophy do the baby-boomers have? We don't have one."

The 20- to 39-year-olds seem clearer about what they want. Listen to Ueda: "My father and I both work for the good of our companies, but we have different approaches." He says his father put the chemical company's needs and desires ahead of his own and those of his family. "But," says Ueda, "I think I will help my company improve by improving my own abilities. So I'm approaching my career at Toshiba with my own personal goals in mind."

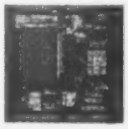
OR CONSIDER the young man who turned down the New York financial job. He is planning to resign this month after just over a decade to become an independent consultant. Says he: "I've been planning this for four years. There are more exciting things for me to do outside of a large organization like this." He wasn't unhappy. He had been treated well.

Initially, he had followed his father into a career in finance. "But there was one difference," he says. "I was working for my own personal fulfillment." His father was shocked when told of his plans. "So I took my parents on a weekend trip to a hot bath to talk it over," he says. "I think

1941
1991

November 1982
Honda begins assembling cars in Marysville, Ohio

September 1984
The U.S. places limits on steel imports from Japan



July 1986
First agreement signed to help U.S. firms penetrate Japan's semiconductor market

September 1986
American rice producers file suit demanding that Japan open its market

September 1987
The U.S. trade deficit with Japan reaches a high of $57 billion

January 1988
Sony purchases CBS Records

June 1988
Japan agrees to liberalize its beef and orange markets

November 1988
The yen hits 121 to the dollar, its highest point

December 1988
The Japanese investment in U.S. real estate totals more than $16 billion for the year

ANDREW SACKS · BLACK STAR · ADVANCE MICRO DEVICES · TED THAI · TIME · JEANNE STRONGIN

GENERATION GAPS

Responses to the question "What does it take to get ahead?"

CITY/ Age group	EFFORT	GOOD LUCK	GOOD CONNEC-TIONS	BEING BORN INTO A WEALTHY FAMILY	HEREDITY/ ANCESTORS
TOKYO					
36 to 45	72.0%	60.3%	28.3%	9.1%	4.3%
26 to 35	61.7%	66.0%	35.1%	11.1%	6.3%
NEW YORK					
36 to 45	72.5%	31.9%	30.1%	8.8%	3.8%
26 to 35	75.7%	26.8%	30.4%	7.3%	2.0%
LOS ANGELES					
36 to 45	76.3%	24.1%	23.4%	5.0%	2.1%
26 to 35	74.7%	28.4%	23.9%	5.5%	2.2%

Adds to more than 100% because of multiple responses

Japanese born since 1945 are different from their elders. This poll by the Dentsu Institute for Human Studies in Tokyo shows a split within the age group. The youngest are more cynical.

my father's coming around."

Japan's big companies are having to make major adjustments for this new generation of workers interested in two-day weekends and diversions other than golf and late-night drinking. For the first time many employers are asking, not telling, new recruits about their corporate philosophies. At NEC, President Tadahiro Sekimoto, 65, has put together a task force of 100 young employees to draft by next July a corporate vision for the 21st century. Fujitsu, among other companies, is trying to make it easier for younger employees to get their ideas heard. Says President Tadashi Sekizawa, 60: "In my day, only the person who had a lot of energy ever got his suggestions heard by upper management. Now, we can easily access anyone's proposal through electronic mail."

The young Japanese who do make it to the top will be more open-minded, says Toshiro Shimoyama, 67, president of Olympus Optical. "My generation has a built-in wall because we have an old, traditional philosophy upon which we depend. The next generation will not have this because after the war our education was changed drastically by the American Occupation. They also have more experience abroad. I'm not worried. We don't need so many people in top management. The president is one person. And those talented few members of the younger generation are far superior to the older generation."

The young are eager for their country to be a world political leader as well as an economic power. Says Iyoshi Kawashima, 39, head of the Junior Chamber of Commerce in Japan: "We want to be like the Americans in the Sixties. We respected Americans then. Why? They were very friendly to the world. They were not selfish. Not so protective." He thinks it is now Japan's turn to be the generous country on the block. Says he: "In the coming decades, other nations will recognize that Japan has really changed. Japan is doing something for the world."

That makes the older generation nervous. Why? Because they worry that Americans may not be ready to cope with a feisty younger Japanese generation. Also, a richer and more creative younger generation will not want to play a subservient role to a poorer U.S. Just look at the recent squabbling over which country was the world's top aid donor in 1990. The conclusion by the Organization for Economic Cooperation and Development that the U.S. had regained its position as No.1 sparked a retort from the Japanese that U.S. military support should no longer be included in the calculations.

Japan's new Prime Minister, Kiichi Miyazawa, 72, was a young bureaucrat in the Finance Ministry during World War II. A lot of members of his generation have opposed American policies in the past, such as the breaking up of Japan's major business groups after the war. But they always went along. Many in Japan expect Miyazawa, a sophisticated man who is fluent in English, to be tougher.

If he is, he'll get plenty of support from the younger generation. Says Masahiro Toriyama, 31, a management consultant at Nomura Research Institute who spent a total of nearly four years at various U.S. universities: "Japan and the United States share a common destiny. One cannot prosper without the other. But my generation is much more nationalistic than my father's because we have more confidence in Japan as a nation. My generation is also more arrogant. If we face threats from the U.S., we will directly accuse the Americans of being irrational. If the U.S. forms a protectionist regional economic bloc with Canada and Mexico, and the

1941
1991

January 1989
Emperor Hirohito dies

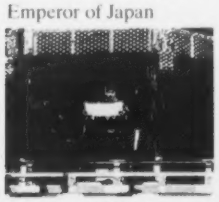
May 1989
The U.S. accuses Japan of unfair trading practices involving supercomputer sales

July 1989
The U.S. launches its so-called Structural Impediments Initiative aimed at opening Japanese markets

November 1989
Sony purchases Columbia Pictures

April 1990
Mitsubishi Estate buys 51% of Rockefeller Group

November 1990
Prince Akihito becomes Emperor of Japan



January 1991
Japan reluctantly contributes $13 billion to the Gulf war as anti-U.S. sentiment grows

June 1991
A new U.S.-Japan semiconductor agreement is signed

December 1991
The 50th anniversary of Pearl Harbor

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NEC President Sekimoto wants to open doors for young managers.

European Community does the same, then Japan might have to form its own bloc in Asia." Kawashima has a similar vision, especially if the U.S. gets pushier in trade relations. Says he: "We should not forget Europe and the U.S., but join with Asia."

Many of Japan's older business leaders have worried that a Japanese-led economic bloc could be construed as a continuation of the World War II Greater East Asian Co-Prosperity Sphere. They are still not free from the past because Japan has never officially apologized for the war, either to the U.S. or to the Asian nations it invaded. Emperor Akihito and Japanese diplomats have come close on their overseas visits, but never to the satisfaction of their Asian neighbors. Some elders, like Hasegawa, the former chairman of Sumitomo Chemical, who worked with the Japanese government in Manchuria, still do not believe Japan should apologize. Says Hasegawa: "Many accidents occurred before the war in Manchuria broke out. We have to apologize for killing Zhang Zuolin [a Chinese military leader who opposed the Japanese government]. But to recognize Manchuria and to support it both technically and economically, that was good for people living there. So we cannot overgeneralize."

The younger generation is not manacled by these memories. When they think of the war, they think of the atomic bomb. Says Kazuhiko Nishi, 35, founder of ASCII Corp., a major producer of software for personal computers: "People 50 years ago made a mistake when they decided to fight America. It was a strategic mistake due to a lack of information. The result was suicide for the people who were in charge of the war. If I had been alive 50 years ago, I would have voted against that government action. If I had to vote now whether my country should apologize or not, I would vote that we should apologize."

Don't expect today's savvy youngsters to be bound by anything in Japan's past. Unlike their elders, they believe that in the post–Cold War era, there is no longer a need for Japan to take sides. The U.S. will need to take a fresh approach and consult more with Japan over the next 50 years. The next generation wants to be heard. If the U.S. wishes to maintain a partnership, it had better choose to listen. F

Olympus Optical President Toshiro Shimoyama, at home with his wife, Masako, thinks the younger generation will be better at business than his has been.